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شورى للاستشارات الشرعية
Shura Sharia Consultancy

RECOMMENDATIONS OF THE SECOND

مؤتمر المدققين الشرعيين الثاني

Sharia Auditors Conference

19 Jumada AL Akhra 1431
2nd June 2010
Holiday Inn Hotel - Down Town
Kuwait

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The second Sharia Auditors Conference was concluded on June 2nd, 2010 in Kuwait. The conference was organized by ***Shura Sharia Consultancy Co.*** under the patronage of Sheikh Dr. Khalid Mathkor Al-Mathkor, President of The Supreme Consultative Committee on the Implementation of the Islamic Sharia Law, and attended by a number of scholars members of Sharia Supervision Committees and a group of sharia auditors and supervisors working at Islamic financial institutions inside and outside the State of Kuwait.

The conference held three working sessions discussing the following issues:

- Sharia consultation companies, challenges and ambitions.
- Organization of Sharia auditing.
- Reality of Sharia auditing in Kuwait.

Following presentations of working papers, comments thereon and detailed deliberations among participants, the following recommendations were reached at the final session:

1. The conference affirms that Sharia auditing is the essential characteristic of Islamic financial institutions, since actual observation of Islamic Sharia rules and principles cannot be achieved without the existence of an independent committee of scholars guiding the institution through binding fatwas/ decisions. Such auditing is only effective if the Sharia Supervision Committee –in addition to issuing Fatwas- conducts prior checking and subsequent Sharia auditing of all activities and operations to ensure compliance.

2. The Conference reaffirms the recommendations issued by the First Sharia Auditors Conference, held in Kuwait on May 4th, 2009. This includes calling on Islamic finance institutions to give serious consideration to the establishment of "Internal Sharia Auditing Department" since it is one crucial component of "Internal Sharia Auditing System". The job of such department is to assist the management in ensuring abidance with Islamic Sharia rules. It is necessary to grant these departments maximum independence and enhanced professional qualification to perform their tasks in a neutral and objective manner.

3. The Conference affirms the importance of differentiation between The term ***"Sharia Supervision Committee",*** whose responsibilities include Fatwa and external Sharia auditing, and the term ***"Internal Sharia Auditing Department",*** which is one crucial element of Sharia audit system within

the organization. It is equally important to differentiate between these two entities in duties and tasks, in appointment, firing, reporting, accountability, and compensation.

4. The conference affirms that the crucial role of Sharia Supervision Committees in achieving Sharia compliance, requires the **Regulatory Authorities** like Central Bank and Ministry of Commerce to issue detailed **Regulations** regarding the establishment of Sharia Supervision Committees, their objectives, responsibilities, appointment and discharge, qualification of members, how they perform their Sharia audit duties, and their compensations and reports. Moreover, such **Regulations** must be made binding on all financial institutions whose Bylaws assert their Sharia compliance.

5. The conference recommends that the **Regulatory Authorities** issue detailed binding instructions requiring Islamic financial institutions to have a permanent department for internal Sharia audit suitable to their size and nature of operations. This department should include adequate number of qualified persons. Instructions and regulations should also detail the scope, objectives and tasks of internal audit; its independence procedures, authority, responsibilities, accountability and qualifiacatiobns of the auditing team.

6. The conference calls upon the **Regulatory Authorities** to organize the work of consultation companies in line with the best professional practices , through the adoption of appropriate regulations and mechanisms to license these companies and set staff qualifications, whether consultants or auditors, and to track the performance of these companies.

7. The Conference calls upon Islamic financial institutions to support the continuous professional development of their Sharia auditors and reviewers to enable them to perform their assigned tasks in an effective and professional manner. In addition, the conference urges auditors and reviewers to seek in their field professional certificates that grant the holder a license to practice.

8. The Conference recomnmends that consultation companies strive to present their services in the best professional manner and to select their working team from among best qualified experts .

9. The Conference urges the consultation companies to adopt an ethical and professional Code of Conduct in provision of services, while avoiding any conflict of interests, and ensuring neutrality, transparency and objectivity.

Praise be to Allah,